

**MINUTES
of the
FOURTH MEETING OF THE 2014 INTERIM
of the
MORTGAGE FINANCE AUTHORITY ACT
OVERSIGHT COMMITTEE**

**October 8, 2014
Mortgage Finance Authority Office
344 Fourth St. SW
Albuquerque, New Mexico**

The fourth meeting of the Mortgage Finance Authority (MFA) Act Oversight Committee of the 2014 interim was called to order by Senator Nancy Rodriguez, chair, at 10:09 a.m. on October 8, 2014 at the office of the MFA in Albuquerque, New Mexico.

Present

Sen. Nancy Rodriguez, Chair
Rep. Ernest H. Chavez, Vice Chair
Rep. Alonzo Baldonado
Sen. Lee S. Cotter
Rep. Roberto "Bobby" J. Gonzales
Sen. Cisco McSorley

Absent

Rep. Thomas A. Anderson
Sen. Stuart Ingle

Advisory Members

Rep. Nathan "Nate" Cote
Rep. Sandra D. Jeff
Rep. James Roger Madalena
Sen. Richard C. Martinez
Sen. Michael Padilla
Sen. Sander Rue

Rep. George Dodge, Jr.
Sen. Bill B. O'Neill
Sen. Gerald Ortiz y Pino

Staff

Renée Gregorio, Senior Researcher, Legislative Council Service (LCS)
Sharon Ball, Senior Researcher, LCS

Guests

The guest list is in the meeting file.

Handouts

Copies of all handouts and written testimony are in the meeting file.

Wednesday, October 8

Call to Order

Senator Rodriguez welcomed members of the committee, staff and guests to the meeting. She recognized Jay Czar, executive director, MFA, who advised members that the meeting is being video webcast and reminded them to keep sidebar conversations to a minimum to avoid noise interference with the webcast.

Adoption of July 3 Meeting Minutes

On a motion duly seconded, the minutes of the July 3 meeting were adopted without objection.

Welcome

Mr. Czar, newly elected vice president of the Albuquerque Balloon Fiesta board, told committee members that he would be happy to take credit for the beautiful display of balloons in the Albuquerque-area sky this morning but acknowledged the work of the entire community in supporting this internationally known event.

Mr. Czar told the committee that the MFA staff presented the agency budget and strategic plan to the Legislative Finance Committee (LFC) on September 25. He said the presentation "went very, very well". He also reported that the MFA-sponsored August Housing Summit, with more than 660 attendees, more than 150 speakers and presenters and 75 different sessions, included all of "the players" in the business of providing affordable housing. He noted that the MFA had partnered with eight different groups, including mortgage lenders, Habitat for Humanity and the New Mexico Coalition to End Homelessness, to make this biennial conference the definitive affordable housing conference in the state. He thanked Senators Rodriguez, Padilla and Ortiz y Pino and Representative Baldonado for attending the conference. Senator Padilla said he was overwhelmed with the sheer size of the conference and the quality of the materials. Senator Rodriguez thanked Mr. Czar and his staff for the invitation and noted that not all members who wished to attend were able to. She suggested that Mr. Czar work with the LCS to schedule the conference without other legislative conflicts for members for the 2016 summit.

MFA 2015 Budget Overview

Gina Hickman, deputy director, Finance and Administration, MFA, told the committee that her report would focus on resources available for affordable housing for fiscal year (FY) 2014, a review of production and financial highlights and the MFA operating fund revenue analysis and fund expenditure summary, FY 2009 through projected FY 2016.

Resources Available to the MFA, FY 2014: Ms. Hickman noted that total MFA revenues were approximately \$478 million. She said that MFA bond issues of \$336.1 million are the largest source of revenue at 70 percent and represent the bonding limit for tax-exempt bonds. Federal housing programs, such as low-income tax credits and funds from the federal Department of Housing and Urban Development, at \$108.4 million, or 22.7 percent, represent the second-

largest source of revenues. She explained that the MFA operating fund comes through the internal revolving loan fund that MFA funds through profits generated through reserves. This revenue source amounts to \$22.8 million, or 4.8 percent, of MFA resources. State tax credits, such as the low-income housing tax credit (LIHTC), represent \$4.8 million and, together with \$4.1 million in appropriations, represent 1.9 percent of MFA resources. The final category — "Private/Other" — amounts to \$1.9 million, or 0.4 percent, of resources and includes weatherization funds from MFA partners such as PNM and New Mexico Gas Company.

Production and Financial Highlights, FY 2005 through FY 2016 (Projected): Ms. Hickman directed committee members' attention to graphic representations of assets managed and noted the decline in assets under management in FY 2010 from approximately \$3 million to average financial assets of approximately \$1.5 million to projected FY 2015 assets under management of approximately \$1.9 million versus average financial assets of approximately \$1.05 million. In response to committee discussion and questions, Ms. Hickman noted that, even with a rather dramatic decline in assets under management in the past 10 years, the MFA's level of profitability is strong. Regarding production data on multifamily loans and subsidies versus single-family first mortgage loans purchased from FY 2005 through FY 2015 (projected), the data show lower levels of homeownership since the Great Recession of 2008. She pointed out that FY 2014 is projected to show approximately \$152 million in multifamily loans and subsidies versus approximately \$75 million in single-family first mortgage loans purchased. Again directing committee members' attention to the chart on Slide 9 of her presentation in committee members' notebooks, Ms. Hickman pointed out the projected MFA total housing dollars produced in FY 2014 of approximately \$301 million compared to approximately \$500 million in housing dollars produced in FY 2007. In response to committee discussion and questions, Ms. Hickman indicated that for the last few years, issuing bonds has not been feasible. She explained that the MFA is now selling loans into the market, so assets do not become part of the balance sheet. She noted that, even though the MFA is not bonding for mortgage loans, the MFA continues to fund these loans. After additional discussion, Ms. Hickman indicated that, in her opinion, stocks are currently overvalued.

MFA Operating Fund Revenue Analysis and Fund Expenditure Summary, FY 2009 Through Projected FY 2016: Ms. Hickman explained that the MFA is mandated by statute to generate its own funding. Directing members' attention to Slide 8 of her presentation, Ms. Hickman said that 42 percent of the MFA's revenue base is related to administrative fees earned on bond issuance, transaction fees and administration of federal and state program dollars. She said that 31 percent of MFA revenues are generated by interest on loans through an internal revolving loan fund, 11 percent through housing program income, 11 percent from interest on investments invested through a local government investment pool, three percent from servicing income and two percent from other income. Ms. Hickman noted that the MFA operates on federal fiscal years of October 1 through September 30.

Ms. Hickman said that the MFA operating fund expenditure summary for FY 2015 includes 81 percent for administrative expenses, 10 percent for bond contributions, six percent

for loan loss provision and three percent for other expenses. She reported that the expense breakout (projected FY 2014) includes the following expenditure categories with the percentage of total expenses:

Compensation	57 percent
Travel and Public Information	3 percent
Office Expenses	6 percent
Other Operating Expenses (contract services)	13 percent
Non-Operating Expenses, including training and technical assistance, program development and capacity-building	21 percent

FY 2012-FY 2015 General Fund Budget: Ms. Hickman went over the MFA's general fund budget for FY 2014-FY 2015, which was approved by the MFA board on September 17. She said that revenue is projected at \$12.6 million (a decrease of \$1.7 million, or 12 percent), under projected September 30, 2014 revenue and an increase of nearly \$700,000 (five percent) over the prior year budget. The expense budget is projected to be \$11.2 million, an increase of 21 percent over September 30, 2014 actual and a decrease of \$406,000 (three percent) under the prior year budget. Excess revenue over expenses is projected at \$1.4 million. She said that the decrease under prior year actual is a result of \$2 million in State Investment Council (SIC) fair market value adjustments included in FY 2014 actuals. She said that the increase in operating expenses is due, in part, to regular merit increases, budgeted at 2.75 percent, and incentive increases, which were increased from five percent to 7.5 percent.

In response to committee discussion and questions about MFA personnel policies, Ms. Hickman explained that each employee sets personal goals at all applicable levels of the MFA strategic plan, and, at the end of every year, the management team evaluates each employee's goals and accomplishments to determine if the goals further the overall strategic plan goals. One committee member pointed out that he expected incentive pay to be higher. Another member pointed out that MFA employees seldom leave their jobs, which is indicative of the high quality of leadership in the agency.

In response to committee discussion and questions, Ms. Hickman said that any year-to-year carry-over becomes part of retained earnings and can be designated by the board for a special purpose. In response to a question about revenue from selling loans, she said that the revenue is considered one-time revenue and becomes part of the budget. She said that bonds provide long-term annuity.

Report on Bonds Issued, Financing Strategies and Market Update

David Jones, CSG Advisors, directed committee members' attention to information behind Tab 2 in the meeting notebooks. He explained that, in terms of market conditions, since January 2014, the 10-year treasury rate has declined from three percent to approximately 2.4 percent despite almost all forecasts to the contrary and the Federal Reserve's tapering. He noted

that the rate is improving despite the slow economic recovery, quality of new job creation, global growth slowdown and geopolitical forces, which are contributing to lower rates. He indicated that short-term interest rates are forecast to increase beginning in the second quarter of 2015.

Mr. Jones said that municipal bonds have improved significantly, although they are not yet back to normal relationships. He said that year over year, the municipal bond yield fell from 4.72 percent in September 2013 to 3.16 percent currently, while 10-year treasuries have remained flat. He added that the municipal market has outperformed taxable rates, possibly because of positive fund flows, coupled with limited supply and a strong treasury market. He also noted that overall municipal issuance is down 15 percent, year to date.

Pointing out the chart on Slide 5, he explained that CSG Advisors helps the MFA with crucial active monitoring of interest rates.

In terms of housing financial agency (HFA) trends for single-family financing, Mr. Jones noted the following.

1. *The Increased Use of Securitization:* The great majority of HFAs have transitioned from whole loans to mortgage-backed securities (MBS). He said that the MFA has done this for many years, removing loan loss risk on first mortgage production.
2. *Increased MBS sales with or without "to be announced" (TBA) market hedges, as opposed to financing with long-term bonds:* MFA sales via the TBA market have become standard execution for almost all HFAs. MBS future delivery prices have become the method by which HFAs set interest rates, as opposed to tax-exempt bond yields. He noted that the MFA has been using this execution since 2013.
3. *Various Approaches to TBA and hedging interest rate risk:* He explained that direct MBS sales work without a TBA hedge because the excess spread and balance sheet together serve as a hedge.
4. *Uses of Bonds:* Bonds can be issued selectively for new production, as economic refundings, through traditional bond structures, such as serials, term and planned amortization class (PAC) bonds and varying techniques to make bond issues effective, including overcollateralization and front-loading of the maturity schedule, excess interest spread from a prior issue, high-net-worth indentures and monthly pass-through bonds.
 - (a) The MFA has been a frontrunner among HFAs in the monthly pass-through bond market, with five sub-series issued totaling \$104 million since January 2013. The MFA has also refunded existing bonds with 2013 and 2014 series generating more than \$2.5 million in significant present-value savings. Benefits of monthly pass-through bonds include lower rates than traditional bonds, with 25 to 40 basis point savings and no negative arbitrage for no negative reinvestment of funds.
 - (b) A recent financing approach has involved combining TBA hedges with bonds, to mitigate interest rate risk prior to pricing bonds.

Mr. Jones noted the following single-family financing opportunities for the MFA.

1. Continue to evaluate selling MBS via TBA compared to financing with bonds, including the impact on managing pipeline interest rate risk, current profitability, generation of ongoing future revenue streams and rebuilding assets and the balance sheet.
2. Finance new production by overcollateralizing a traditional bond issue to lower the bond rates; for example, the MFA's use of general fund and indenture assets to redeem 2004 bonds created \$8.7 million in excess MBS; and the MFA's use of zero participation loans to subsidize bond issues.
3. Evaluate the ability to hedge a pipeline via TBA while delivering such MBS to bond issues, including termination cost in bond yield, could significantly reduce the interest risk to the MFA of accumulation of MBS for a future bond issue.
4. Refund bonds issued in 2005 to generate additional future ongoing revenue.

In terms of HFA trends in single-family products, Mr. Jones noted the availability of a greater range of products to borrowers, including point options, more productions via down payment assistance, increased conventional lending in response to increased FHA mortgage insurance premiums and offering mortgage credit certificates. He noted that production volumes have generally been stale or slightly downward. He said that, in terms of lender compensation, HFAs must be competitive and that some HFAs have had to increase compensation. In terms of loan servicing, he noted that the MFA was an early adopter of using a fellow HFA (Idaho) as a servicer, reducing reliance on the U.S. Bank. He said that some HFAs are discussing regional or joint servicing ventures while others have found servicing unprofitable and exited the business.

In term of financing multifamily housing, Mr. Jones said that the MFA could use Federal Housing Administration risk-share pass-through bonds to fund new loans from the Housing Opportunity Fund. He said that the CSG has worked with the U.S. Treasury Department to provide input on terms for a risk-share program to ensure usefulness for HFAs and developers, a situation that could prove very useful if it provides a reasonable forward rate approach for permanent risk-share loans. He also suggested partnering with banks so that a bank provides construction financing and a tax credit bridge loan and providing risk-share take-out permanent financing with the agency's own funds.

In conclusion, Mr. Jones advised that the MFA:

1. continue evaluating the best execution for single-family new production;
2. continue taking advantage of current low interest rates;
3. continue evaluating multifamily financing opportunities;
4. continue evaluating cumulative impacts of any approach; and
5. remain nimble in responding to opportunities.

In response to committee discussion and questions about housing for millennials, Ms. Hickman noted that the MFA is looking at different kinds of marketing strategies to appeal to people in this age group. She said that the MFA already provides down payment assistance and

first-time home buyer loans to younger borrowers. She noted that in 2013, 61 percent of loans made were to people age 33 and younger. She said that legislation for millennials would most likely take the form of an appropriation for pre-purchase and financial literacy counseling. She added that the issue is part of the MFA's strategic plan moving forward. Mr. Jones noted that the U.S. Department of the Interior has done television commercials to further its branding.

Discussion continued with concerns about the difficulty of getting loans. One committee member quipped that former Federal Reserve Chairman Ben Bernacke would not qualify for a loan these days since he is now unemployed. Ms. Hickman opined that an overcorrection in response to the housing crisis has led to restrictive regulatory requirements at the federal level.

Senator McSorley made the following requests. How many millennials applied for and were rejected for MFA loans? What are the top five reasons millennials are being rejected for loans from the MFA or for any home loans? What percent of millennials are applying for these loans? How has that percentage changed over the past 20 years? He requested a chart illustrating single-family home prices over the last 10 years by zip code and asked how many specific zip codes are being hit by collapsing housing prices. He also requested articles about banks getting back into more risky, questionable behavior and about exposure of the bond market to hedge funds.

Foreclosure Process Task Force Update

Senator Padilla thanked the chair for the opportunity to provide the committee with an update on the Foreclosure Process Task Force, which was convened during this interim as a result of passage of his Senate Memorial 11, which affirmed the senate's commitment to preserving due process rights for New Mexicans threatened with the loss of their homes through foreclosure and established a task force to study the foreclosure process in New Mexico and recommend the means and methods to improve the foreclosure process to promote community stability and to develop a plan for the education and training of homeowners, lenders, loan servicers and the judiciary on methods of removing impediments to meaningful loss mitigation and preventing improper or unnecessary foreclosures.

Senator Padilla complimented the MFA staff on the excellent Housing Summit and stressed the importance of having all of the players in one venue at the same time.

Senator Padilla said that representatives of more than 15 organizations and individuals who are interested in the issues around foreclosure make up membership of the task force, and 30 to 40 people participate in the monthly meetings, which began last summer. He reported that the task force has established four committees: the Judicial Process for Foreclosure Committee, chaired by former Second Judicial District Chief Judge Ted Baca; the Social and Economic Impact Committee, chaired by Paul Wilson, Realtor; the Veteran Loss Mitigation Committee, chaired by Matt Testkey, Weststar Mortgage; and the Education Committee, chaired by Theresa Laredo-Garcia, MFA. He said the task force is working on the following issues and recommendations:

- reaffirmation and clarification that New Mexico is a judicial foreclosure state in maintenance of due process rights of all New Mexico homeowners to have their "day in court" before losing their homes to foreclosure;
- expansion of statewide mediation programs currently operating in the Second and Thirteenth Judicial Districts to include expanded occupancy programs and fast-track judicial foreclosure programs;
- enactment of New Mexico Mortgage Servicing Standards aimed at improving lender-borrower communication;
- establishment of a first-time homebuyer pre-purchase education program; and
- reduction of effective deficiency judgments times from 14 years; and
- provision of support to continue the task force work.

Senator Padilla introduced Diana Dorn-Jones, executive director, and Vicki Plevin, staff attorney, both of the United South Broadway Corporation, which is staffing the subcommittee. All three agreed about the importance of continuing the work of the task force during the 2015 interim. Ms. Dorn-Jones opined that foreclosure is a multi-tiered, complex issue, and even though the task force has had a number of productive discussions, members need to continue the work and take it statewide.

MFA 2015 Legislative Agenda — Amendment and Discussion of Legislation Suggested by the MFA Act Oversight Committee

Mr. Montoya and Ms. Gregorio briefly discussed the MFA's proposed legislative agenda. The proposals include appropriation requests for MFA's oversight duties of regional housing and the Affordable Housing Act, as well as a recommended \$5 million appropriation for the New Mexico Housing Trust Fund, which was created by the 2005 legislature with an initial appropriation of \$10 million and has received an additional \$8.7 million since that time. They also noted a request for a new \$1 million appropriation for the MFA's low-income residential energy-conservation program, NM Energy\$mart. Another new appropriation request, \$2 million for emergency home repairs, will enable the MFA to fund home repairs for low-income households throughout the state. The MFA is also requesting amendments to the Affordable Housing Act and the Affordable Housing Tax Credit Act that will assist in implementation of these two statutory provisions.

MFA Strategic Plan

Monica Abeita, senior policy and program advisor, MFA, explained that during its 40 years of existence, the MFA has grown into a reputable organization recognized for its prudent fiscal management, strong regulatory compliance, professional staff and dedication to customer service. This solid foundation is the MFA's undisputed strength and allows the organization to administer successfully more than 30 affordable housing programs that benefit all New Mexicans. She said that the MFA's 2015-2017 strategic plan is designed to respond to the unique and changing environment in which the organization will operate for the next three years. She said this new environment is characterized by flat or decreasing federal funding, the state's sluggish recovery from the Great Recession and demographic changes — all of which result in

fewer housing services and providers. She said that the MFA needs to be nimble and innovative and will focus on the following five priorities to align its work strategically in the environment in which the agency must operate: (1) operational excellence; (2) new resources; (3) effective partnerships; (4) expanded homeownership opportunities; and (5) expanded rental opportunities.

Federal Housing Policy and Budget Trends

Ms. Abeita said that Congress finally approved a continuing resolution (CR) on September 18, 2014, just in time to avoid a government shutdown, since FY 2015 began on October 1 and Congress has yet to enact any of its FY 2015 appropriations bills. The CR continues funding for all federally funded programs through December 11, 2014 at slightly below FY 2014 levels, on an annualized basis. Since this CR will expire on December 11, Congress will need to approve another CR or other FY 2015 funding legislation during its lame-duck session to ensure that federally funded programs continue operating after that date. She said that it remains unclear whether Congress will be able to approve a package of new FY 2015 bills in an omnibus bill, similar to the way FY 2014 appropriations were finalized, or if it will need to pass another funding extension and then continue consideration of FY 2015 appropriations in the new Congress. She reported that U.S. Senate and House of Representatives appropriations committee leadership have expressed their desire to pass an omnibus appropriations bill during the lame-duck session. She added that U.S. House and Senate subcommittees have approved different funding levels for the HOME Investment Partnerships Program for FY 2015: \$700 million in the house and \$950 million in the U.S. Senate, a decrease in funding in either case. She said that the MFA's HOME funding allocation has decreased by 54 percent since FY 2010. She directed members to the information behind Tab 4 in members' notebooks for additional updates on funding for additional federal programs.

The chair thanked the staff of both the LCS and the MFA for their hard work throughout this interim.

Adjourn

There being no further business to come before the committee, the meeting adjourned at 12:28 p.m.